



COMPANY: **Nike, Inc**
COUNTRY: **Brazil**
ASSESSMENT DATE: **10/15/12**
MONITOR: **FLA Assessor Team (Americas)**
PRODUCTS: **Footwear**
PROCESSES: **Cut, Sew, Screen Printing/Printing, Other**
NUMBER OF WORKERS: **1610**
ASSESSMENT NUMBER: **AA0000000015**

What's Included in this Report

- Understanding this Assessment Report
- Glossary
- Score by Employment Function
- Score By Management Function
- Score Summary
- Summary of Code Violations Table
- Findings and Action Plans

Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: a de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of the facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

Facility performance: how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

Fair labor standards: the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

Employment life cycle: all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

Code violation: failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

Company action plan: a detailed set of activities outlined by the sourcing company and/or direct employer to address FLA findings.

Employment functions: The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

Management functions: violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

Finding: indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

Finding type

- *Immediate action required:* discoveries or findings at the workplace that need immediate action because they not only

constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

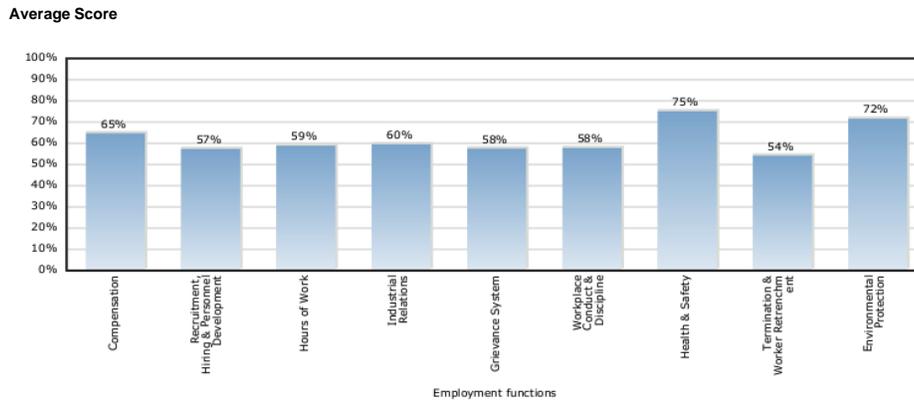
Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

Uncorroborated Risk of Noncompliance: indicates a serious issue that has surfaced during the assessment, but one which the assessors were not able to corroborate through additional sources of information (e.g., allegation of retaliation against a worker by the factory management for participating in the assessment).

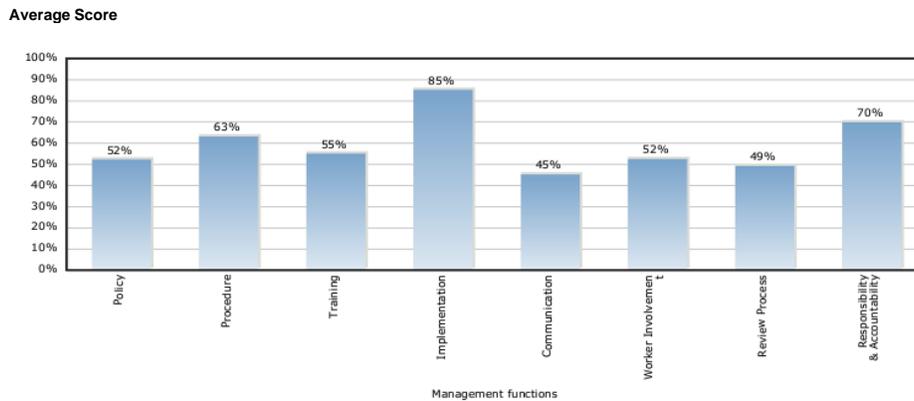
Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an FLA assessment. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

| Management Functions | Recruitment, Hiring & Personnel Development | Compensation | Hours of Work | Industrial Relations | Grievance System | Workplace Conduct & Discipline | Termination & Worker Retrenchment | Health & Safety | Environmental Protection | Aggregate Score |
|---------------------------------|---|---------------|---------------|----------------------|------------------|--------------------------------|-----------------------------------|-----------------|--------------------------|-----------------|
| Policy | 16.71% | 54.13% | 60% | 0% | 42.86% | 45% | 38.89% | 100% | 83.33% | 48.99% |
| Procedure | 55.22% | 51.52% | 30.65% | 0% | 65% | 45.83% | 28.09% | 80.13% | 93.33% | 49.97% |
| Responsibility & Accountability | 72.57% | 50% | 66.67% | 50% | 66.6% | 66.6% | 66.6% | 83.33% | 80% | 66.93% |
| Review Process | 45% | 59.09% | 58.33% | 45% | 40.91% | 45% | 55% | 59.09% | 68.33% | 52.86% |
| Training | 47.92% | 63.4% | 40.27% | 46.88% | 60.53% | 43.33% | 40.63% | 72.74% | 75% | 54.52% |
| Implementation | 71.36% | 87.35% | 86.48% | 82.76% | 61.11% | 80.56% | 88% | 87.65% | 93.65% | 82.1% |
| Communication | 0% | 60% | 43.18% | 0% | 44.44% | 33.33% | 0% | 91.67% | 53.33% | 36.22% |
| Worker Involvement | 66.67% | N/A | N/A | 100% | 0% | N/A | N/A | 75% | 0% | 48.33% |
| Aggregate Score | 46.93% | 60.78% | 55.08% | 40.58% | 47.68% | 51.38% | 45.31% | 81.2% | 68.37% | |

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

| FLA Code Element |
|--------------------------------|
| Compensation |
| Employment Relationship |
| Forced Labor |
| Harassment and Abuse |
| Hours of Work |
| Health, Safety and Environment |
| Non-Discrimination |

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- i) There is no system in place to ensure that the recruitment and hiring of new employees is made on the basis of an applicant's qualifications. Recruitment and hiring requirements are not in writing;
- ii) Job descriptions for all production positions are incomplete; they do not include the required skills, abilities, and other qualifications.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.1, ER.2.1, ER.2.1.1 and ER.3.2; Non-discrimination benchmark ND.2.1)

Root Causes

- i) Factory management makes all hiring decisions based on an official document (Carteira de Trabalho) issued by the Ministry of Labor, which contains all work experience of each worker; however, it does not include other requirements in terms of education, training, skills, and abilities;
- ii) Factory management does not see the need to use job descriptions during the recruitment/hiring process;
- iii) Management's poor awareness of and knowledge on hiring and recruitment policy/procedure creation.

COMPANY ACTION PLANS

1. i) Management must create a recruitment and hiring system which would allow factory management to make hiring decisions based on employees' qualifications, such as education, training, experience, demonstrated skills, and abilities related to the inherent requirements of a particular job; ii) Management must enhance all job descriptions for production positions to ensure that all skills, abilities, training, experience, education, and other hiring requirements are included; iii) Human Resources staff must establish and implement an effective internal monitoring procedure to ensure that all policies, procedures, and other documents are consistent with the local law and FLA requirements; iv) Management must ensure that there is ongoing training on the new recruitment/hiring system for the personnel in charge of its implementation;

Action plan status: In Progress

Planned completion date: 01/30/14

Progress update: 04/22/14 : The factory has created a recruitment and hiring system. (ID01 - Recrutamento, contratação e desenvolvimento..doc

FINDING NO.2

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- i) There is not a system in place to ensure that promotion decisions are made on a fair and transparent basis. Relevant written procedures do not outline criteria for the promotion scheme, as there is no evidence that promotion decisions are made on the basis of an employee's qualifications and skills. No performance review steps are available on site;
- ii) Factory has neither created nor implemented policy and procedure related to personnel development, which includes the requirement of periodic performance reviews and defines how these reviews are linked to promotions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.1, ER.28.1, ER.29.1, ER.30.1, ER.30.1.1, and ER.30.1.2)

Root Causes

- i) Management's poor awareness of and knowledge on promotion policy/procedure creation;
- ii) In the case of most workers on the production floor, promotion and personnel development opportunities are very limited, so workers and managers do not see the need to have written policies and procedures;
- iii) Since local labor law does not mandate these policies and procedures, management does not feel they need them;
- iv) Worker performance is tied to reaching production goals, but not related to promotion opportunities;
- v) Management's lack of awareness of FLA Benchmarks on Personnel Development.

COMPANY ACTION PLANS

1. i) Management must develop a personnel development policy and procedure for the periodic review of individual performance that provides employees with promotion opportunities; ii) Management must develop a procedure to assign the Human Resources department a responsibility to implement the personnel development system ; iii) The factory must provide training for all workers about the new policy and procedure on personnel development.

Action plan status: In Progress

Planned completion date: 01/30/14

Progress update: 04/22/14 : The factory has developed a personnel development procedure.

FINDING NO.3

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) Some production employees were seen working during the 15-minute morning break; ii) Some employees were seen taking their breakfast at their workstations;

- iii) Gathered information showed that some of the few training activities provided by management have been carried out after ordinary working hours, without payment of overtime.
- iv) Based on interviews with workers on night shift, there have been instances where overtime is not consensual. Since management provides transportation for workers, if there is overtime being worked, some workers do not have the ability to leave the facilities when the regular work shift ends; instead, they have to continue working overtime until the specific task is finished.

Local Law or Code Requirement

Consolidation of Brazilian Labor Law (CLT), Article 71, § 1; FLA Workplace Code (Hours of Work benchmarks HOW.3 and HOW.8.2)

Root Causes

- i) No monitoring mechanisms/internal procedures to ensure that all employees rest during the breaks;
- ii) Lack of worker awareness of the right to take their breaks;
- iii) There are no adequate facilities in proximity to the production floor for employees to take their meals and rest;
- iv) Hours of work procedures that outline the voluntary nature of overtime are missing;
- v) Factory's hours of work policy/procedure do not cover the treatment of time for attending training sessions;
- vi) Factory management considers training opportunities as additional benefits that should not be compensated.

Recommendations for Immediate Action

Management is to ensure the full payment of all hours of work, including training time after regular working hours.

COMPANY ACTION PLANS

1. i) Management must create an hours of work policy that includes: a) overtime guidelines that ensure that all overtime is performed on a voluntary basis; b) requirements for compensating the time spent on training after regular hours; ii) Management must establish written rules for breaks; iii) Management must implement a procedure to ensure that all employees are resting during breaks; iv) All workers must be trained on the new policies and procedures about working hours; v) Employees should be allowed to take their morning meals in the canteen OR the factory has to provide them with a place to eat.

Action plan status: In Progress

Planned completion date: 03/29/14

Progress update: 04/22/14 : The factory has created an hours of work policy.

FINDING NO.4

TERMINATION AND WORKER RETRENCHMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Based on a review of personnel files of terminated employees with cause/fault, it was observed that factory management does not keep any record demonstrating terminated workers' low performance; as a result, it was not possible to corroborate if dismissals were on fair and objective grounds.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.32.2)

Root Causes

- i) Management does not see the need to record the termination process applied and the steps followed when an employee is terminated;
- ii) Lack of monitoring mechanisms/internal procedures to review and update policies and procedures;
- iii) Lack of specific and in-depth training for personnel in charge of developing and implementing termination policies and procedures.
- iv) This issue has never been brought to management's attention during previous external audits.

COMPANY ACTION PLANS

1. i) Include a requirement for keeping the records on all termination decisions and steps followed when terminating a worker's contract in the termination policy; ii) Specifically assign staff from the Human Resources department the to implement the termination procedure; iii) Regularly train all workers on the new termination policy and procedure.

Action plan status: In Progress

Planned completion date: 12/09/13

Progress update: 04/22/14 : i) The factory has created a procedure to maintain records of all termination decisions and steps followed when terminating a worker's contract. (ID-04 Desligamento e demissões de funcionários); ii) All workers from Human Resources received training on this procedure procedure. (Fotos e lista de presença do treinamento).

FINDING NO.5

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory has not created and implemented an industrial relations policy and its relevant procedures.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.1).

Root Causes

- i) Management's lack of awareness of FLA's Industrial Relations Code requirements and Benchmarks;
- ii) Management has not seen the need for develop/implement Industrial Relation policy and procedures;
- iii) This issue has never been brought up into factory's attention during previous external audits before.

COMPANY ACTION PLANS

1. i) An internal monitoring procedure must be established and implemented to ensure that all policies and procedures are consistent with the local law and the FLA requirements;
- ii) Management must create and implement an Industrial Relations policy and procedures that include a clear commitment to Freedom of Association and enable workers to consult with and provide input to management through appropriate structures to be developed;
- iii) Train all workers regularly on the policies and procedures about Industrial Relations.

Action plan status: Planned

Planned completion date: 02/28/14

FINDING NO.6

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- i) Factory has neither developed nor implemented a progressive disciplinary system in place. There are no written policies and procedures on conduct/discipline;
- ii) There is no process in place to allow for appeals against any eventual disciplinary actions that might have been imposed to workers and provisions for the presence of a third party witness during disciplinary inquiries and for a review of the disciplinary actions by a senior manager do not exist;
- iii) As there is no disciplinary system, managerial and supervisory positions are not fully familiar on how to handle discipline issues.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.27.1; ER.27.2 and ER.27.4).

Root Causes

- i) Management's lack of awareness of FLA's Workplace Code requirements and Benchmarks;
- ii) Management does not see the need to formalize workplace/discipline policies and procedures;
- iii) This issue has not been brought to the factory's attention during previous external audits.

COMPANY ACTION PLANS

1. i) Factory management must develop workplace conduct/discipline policies and procedures that include all elements required by FLA. ii) Management must train all workers on workplace conduct/discipline policies and procedures; iii) Assign someone from the Human Resources department to handle all issues related to workplace conduct/discipline; iv) Management must review periodically the policies and procedures that are being implemented; v) The factory must ensure that all disciplinary actions are recorded and filed appropriately.

Action plan status: In Progress

Planned completion date: 03/29/14

Progress update: 04/22/14 : i) The factory has developed workplace conduct/discipline policies and procedures that include all elements required by FLA. (ID-06 Conduta e disc no ambiente de trabalho) ii) The factory has trained all supervisors on policies and procedures related to workplace conduct/discipline; (fotos e lista de presença do treinamento)

FINDING NO.7

GRIEVANCE SYSTEM

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- i) Factory's grievance system is limited to suggestion boxes only; in practice, they are not effective, as there is no confidentiality. Suggestion boxes are located in the sight of all workers in the production areas;
- ii) Factory's grievance procedures do not allow for workers to look for a senior manager's review and consideration if direct settlement with the immediate supervisor has failed or is inappropriate.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.25.3 and ER.25.3.1)

Root Causes

- i) Management has just recently designed and implemented a grievance system and it does not meet all FLA requirements; \
- ii) Lack of management understanding of how a grievance system functions and how it should be implemented;
- iii) Management's lack of awareness of FLA Workplace Code and Benchmarks;
- iv) Lack of appreciation for and the benefits of a sound grievance system on the part of both managers and workers.

COMPANY ACTION PLANS

1. i) Management should develop a comprehensive grievance system that enables workers to file complaints without fear of retaliation or dismissal and includes all elements required by the FLA Workplace Code and Benchmarks; ii) Management must train all workers on the grievance system; iii) The factory should periodically review the effectiveness of training and communication procedures to gauge workers' awareness of the grievance system; iv) Management must periodically analyze whether the grievance system is being implemented as intended.

Action plan status: In Progress

Planned completion date: 05/30/14

Progress update: 04/22/14 : The factory has developed a comprehensive grievance system. (ID07 - Sistema de reclamações e sugestões). All supervisors received training on this system. (Foto e lista de presença)

FINDING NO.8

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory's environmental protection policy does not include a commitment to minimize environmental impacts with respect to the conservation and use of energy.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.31.3).

Root Causes

The revised FLA Workplace Code and Benchmarks now include environmental protection requirements, which are new for Companies and their supplier base.

COMPANY ACTION PLANS

1. i) Factory must improve its environmental protection policy by including a commitment to minimize environmental impacts regarding use of energy and conservation;
- ii) All workers must be trained on the new commitment to minimize environmental impacts regarding energy usage.

Action plan status: Planned

Planned completion date: 01/30/14

FINDING NO.9

HEALTH AND SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

There were several issues observed in relation to unsafe working conditions for employees in the workplace:

- i) Some employees performing tasks in areas with potential health risks have not been adequately trained on how to perform their jobs in a safe manner; e.g., "Solado" and "Vulcanization cell (Autoclave)" Departments;
- ii) Gathered information showed that some recent short circuits and fires have occurred in the workplace. In one case, a night shift worker from the "Vulcanization cell (Autoclave)" Department had not been trained on what to do and what steps to follow in mitigating a fire caused by a short circuit;
- iii) Factory has not conducted mandatory medical exams. Initial and continuous lung exams for all employees in the "Solado" Department have not been performed as required by local law;
- iv) From physical inspection, it was noted that some employees from the "I.V.A." Department were mixing chemical powders without using the relevant personal protective equipment (PPE) (masks and gloves);
- v) There are no drinking water stations in proximity for employees in the sewing department;
- vi) Employees performing standing operations do not have ergonomic mats. No ergonomic assessment has been conducted so far, no ergonomic breaks are provided and several workstations have not been equipped with floor mats.

Local Law or Code Requirement

Consolidation of Brazilian Labor Law, Article 168; Brazilian Regulatory Norm NR-6 (Personal Protection Equipment) sub-items 6.6 and 6.7; Brazilian Regulatory Norm NR-10 (Electrical Installation) sub-items 10.2; Brazilian Regulatory Norm NR-24 (Sanitary and Comfort Conditions in the Workplace) sub-items 24.3.15; and FLA Workplace Code (Health, Safety & Environmental benchmarks HSE.1, HSE.8, HSE.13, HSE.17, and HSE.23)

Root Causes

- i) Lack of coordination and effective communication between the Health and Safety Department and all different areas/departments of the factory;
- ii) No effective oversight system to ensure that: a) all employees are provided with and use the relevant PPE, b) all mandated medical examinations are being carried out, c) all employees handling chemicals do so properly and follow the required safety measures, d) all work areas are provided with drinking water station within a reasonable distance, and e) all potential electrical/fire risks are adequately addressed;
- iii) Low worker awareness about the importance of proper PPE use in the workplace;
- iv) Lack of effective training on the usage of PPE, chemical handling, and electrical/fire risks;
- v) Currently, ergonomics is not under the purview of the Health and Safety Department; vi) To date, the factory has not performed any ergonomic risk assessment.

Recommendations for Immediate Action

- i) Factory management is to contract a specialist on electrical systems to conduct a risk assessment and to ensure proper electrical wiring and maintenance;
- ii) Install drinking water stations near sewing lines.

COMPANY ACTION PLANS

1. i) Management must ensure that there is ongoing training on the usage of PPE, electrical safety, and fire risks for all employees; ii) Management must ensure there is ongoing safety training for all employees in the “Solado” and “Vulcanization cell (Autoclave)” Departments; iv) Develop and implement a mechanism that would result in improved communication between the Health and Safety Department and other areas/departments in the factory; v) An internal procedure should be established and implemented to ensure: a) that all employees are provided with and are trained to use the correct PPE; b) that all mandated medical examinations are carried out; c) that all requirements for a safe chemical management system are met; d) that all drinking water stations are located within a reasonable distance of all work stations; e) that all electrical/fire risks are adequately addressed; vi) The factory must perform a risk analysis that includes ergonomic concerns; vii) The factory must measure the results of the ergonomic risk analysis.

Action plan status: In Progress

Planned completion date: 12/28/13

Progress update: 04/22/14 : The factory has implemented some training and procedures.

FINDING NO.10

TRAINING

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Based on an in-depth review of the factory’s training practices, it was noted that, in respect of nearly all employment functions, training activities are not being adequately carried out. There are some focused training exercises targeting some specific groups of workers, supervisory and managerial staff (HR and production). However, most production workers do not receive follow-up training.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.2, ER.28.1, and ER.28.2)

Root Causes

- i) Lack of a comprehensive training program to address all training needs;
- ii) Lack of awareness about the benefits of effective training;
- iii) Factory has not seen the need to expand the list of topics already covered by training;
- iv) Absence of a mechanism to harmonize production needs with training needs.

COMPANY ACTION PLANS

1. i) The factory must create a comprehensive training program based on SCI Employment Functions; ii) Establish ongoing training for all employees; iii) Schedule training activities during regular working hours. If training is provided after regular working hours, the factory should ensure the payment of overtime; iv) Assign staff from the Human Resources Department to lead the implementation of the training program.

Action plan status: In Progress

Planned completion date: 01/30/14

Progress update: 04/22/14 : i) The factory has created a comprehensive training program based on SCI Employment Functions; ii) The factory has established ongoing training for all employees; (ID-10 Treinamentos)

FINDING NO.11

COMMUNICATION & WORKER INVOLVEMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

For almost all employment functions, it was noted that the factory does not communicate its policies and procedures to the general workforce on an ongoing basis. There is an induction process, during which all new hires are informed about some factory rules and practices, but there is no planned follow-up to communicate updates and legal changes, except those related

to salary increases through postings or refresher sessions. Normally, communication is unidirectional, meaning that it is from management to workers and not vice versa.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.2, ER.16.1, and ER.25.2)

Root Causes

- i) Management does not appreciate the benefits of having informed staff and workers;
- ii) Top-down communication without workers' feedback is culturally acceptable for management;
- iii) The FLA's Sustainable Compliance Initiative (SCI) methodology and revised benchmarks include "Communication" as a standard, which is a new requirement for Companies and their supplier base;
- iv) Management has not seen the need for ongoing and periodic communication with the workforce other than orientation/induction and some sporadic training activities.

COMPANY ACTION PLANS

1. i) Create a communication channels policy that includes: a) a definition of the factory's communication channels and the need for two-way communication between workers and management on factory affairs b) an express commitment to support transparent and ongoing communication between workers and management, including a commitment to the principle of non-retaliation; ii) Create appropriate procedures to: a) describe how each communication channel functions, including how each is used by workers and management; b) show how the information flow is managed, how responses and decisions, if any, are made and conveyed; c) describe how workers and management use a grievance system for investigation and resolution of issues; d) explain how communication channels policies and procedures are conveyed and promoted to relevant parties; e) explain who is responsible for each step in the process; f) define how communication channels are to be analyzed. Identify or define: *what communications channels exist across management levels and departments; *how often they are used (and with what agenda and result); *whether two-way communication channels work; *identify if improvement/updates may be needed. Metrics may include: analysis of communication channels' effectiveness.

| | |
|---------------------------------|--|
| Action plan status: | In Progress |
| Planned completion date: | 06/30/14 |
| Progress update: | 04/22/14 : i) The factory has created a communication policy. (ID11 - Comunicação e envolvimento dos funcionários) |

FINDING NO.12

COMMUNICATION & WORKER INVOLVEMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

The worker integration component is missing through all employment functions. This implies that the factory has not established procedures to receive workers' input/feedback on the creation and updating of its policies and procedures. Workers are not systematically integrated or consulted on the decision-making process on policy and procedure creation.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.25.2)

Root Causes

- i) Lack of management understanding of what integration implies and how to implement this management function;
- ii) Management's lack of awareness of FLA Workplace Code and Benchmarks;
- iii) Management has not seen the need to formalize a worker integration process.

COMPANY ACTION PLANS

1. i) Management must establish a procedure that enables workers to consult with and provide input to management; ii) Management must train all workers on the newly created worker integration procedure; iii) Assign members of staff from the HR Department to lead the implementation of the worker integration.

| | |
|---------------------------------|-------------|
| Action plan status: | In Progress |
| Planned completion date: | 02/28/14 |

Progress update:

04/22/14 : i) The factory has established a procedure that enables workers to consult with and provide input to management; (ID12 - Comunicação e envolvimento dos funcionários). All supervisors were trained on this procedure. (Foto e lista de presença)

FINDING NO.13

REVIEW PROCESS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory does not conduct periodic reviews of its policies and procedures.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.3, ER.30.2, and ER.31.2)

Root Causes

- i) Lack of policies and procedures for some Employment Functions under SCI;
- ii) Management has not seen the need to update policies and procedures;
- iii) Absence of staff with the specific responsibility of reviewing and updating policies and procedures;
- iv) This issue has never been brought to management's attention during previous external audits;
- v) Management's lack of awareness of FLA Workplace Code and Benchmarks.

COMPANY ACTION PLANS

1. i) Establish a periodic review of policies and procedures to ensure policies and procedures are being updated according to the factory's needs and based on whether or not policies and procedures are functioning properly. Worker participation should be included in this process; ii) Assign members of staff from the HR Department to lead the implementation of the review process.

Action plan status: In Progress

Planned completion date: 01/30/14

Progress update: 04/22/14 : i) The factory established a procedure to ensure that policies and procedures are being updated according to the factory's needs and based on whether or not policies and procedures are functioning properly. (ID13 - Processo de revisão) ii) All supervisors were informed of this procedure . Foto e lista de presença)

FINDING NO.14

BASIC NEEDS

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

Based on worker interviews, their wages are not enough to cover basic needs and provide some discretionary income.

Local Law or Code Requirement

FLA Workplace Code (Compensation benchmark C.1.3)

Root Causes

- i) Management's lack of awareness of FLA Workplace Code and Benchmarks;
- ii) This issue has never been brought to management's attention before;
- iii) There is no wage structure in the factory that would enable workers to progressively earn a wage level that meets basic needs.

Recommendations for Immediate Action

- i) Management is to take an online FLA Fair Wage Self-Assessment / 3 months;
- ii) Based on the results of the self-assessment, the factory is to work together with the FLA-affiliated Company and FLA to create strategies that would progressively ensure a wage level that covers basic needs and discretionary income / Continuous.

COMPANY ACTION PLANS

1. Factory must make an analyses to know the medium wage on its neighborhood.

Action plan status: In Progress

Planned completion date: 12/12/13

Progress update: 04/22/14 : Factory is going to make an analyses to know the medium wage on its neighborhood o compare to its wage. Seth Holverson, Director SM&S (Sustainable Manufacturing & Sourcing) Labor form WHQ raised the FLA suggestion for broader review with the FLA Compensation Working Group.